

Comptroller's Quarterly

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STATE RACES TO PAY MEDICAID BILLS

Long-term challenges, payment delays continue

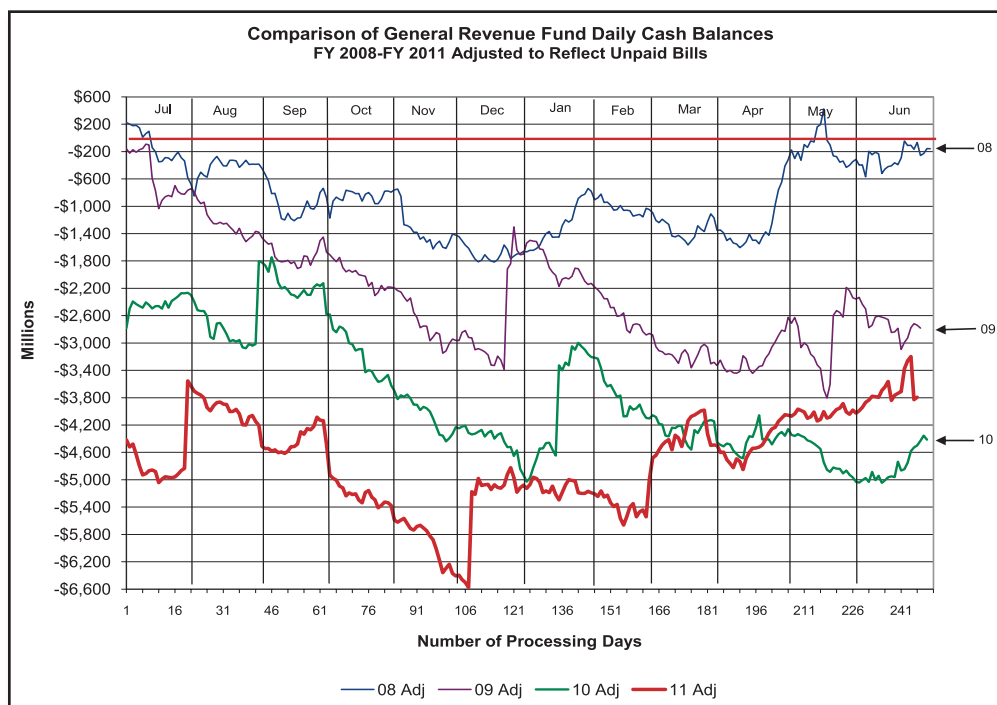
After three years of declining end-of-year General Revenue Fund (GRF) balances, fiscal year 2011 has concluded with Illinois in a better position than it was 12 months ago. But that improvement may be temporary, as not all of the state's liabilities for the year – such as certain health insurance bills and tax refunds – have been factored into the equation.

Even more important than the end-of-year snapshot though is this reality: Illinois continues to face staggering long-term financial challenges, and enters fiscal year 2012 without some of the key revenue sources and spending shifts that have been used to support previous budgets.

At the end of June, the backlog of unpaid bills and fund transfers in the Comptroller's Office (IOC) totaled \$3.798 billion, compared to \$4.712 billion last year. Payment delays once again persisted throughout fiscal year 2011, with some vouchers at the end of the year dating back to January 2011, and transfers back to August 2010.

Although the backlog of bills remains high, it is slightly lower than what was anticipated at the end of the third quarter. The improvement is due primarily to higher-than-expected fourth quarter revenue collections, and fewer vouchers presented to the Comptroller by state agencies during that time. However, nearly \$1.9 billion in fiscal year 2011 appropriations remain unexpended, and a large portion of that may still be utilized for outstanding fiscal year 2011 obligations.

Base spending for the year was up 15.6 percent, fueled in large part by the state's push to pay Medicaid bills and take advantage of temporarily increased federal "match" dollars before June 30. The state allocated \$892 million for



GRF Medicaid bills in June 2011 alone. Additionally, \$365 million was transferred from the GRF to the Healthcare Provider Relief Fund for Medicaid bills prior to the deadline. By prioritizing Medicaid payments, the state collected around \$90 million in enhanced federal matching funds for the month of June alone. Beyond Medicaid, the spending increase can be attributed to beginning the state's repayment of fiscal year 2010 pension bonds.

Base revenues increased 12.6 percent in fiscal year 2011 as the income tax increase passed in January began to take effect. Income tax receipts were up approximately one-third, or \$3.2 billion, for the fiscal year – although a portion of that can be attributed to the fall tax amnesty program. The sale of the state's tobacco bonds in December 2010 also contributed to the growth.

BASE REVENUES

The combination of tobacco bond proceeds, the tax amnesty program and the increase in income tax rates led to a General Funds total base revenue increase of \$3.533 billion, or 12.6 percent. Specifically, individual income tax receipts grew \$2.714 billion or 31.9 percent in fiscal year 2011, while corporate income tax revenues increased by \$491 million, or 36.1 percent. The state's tax amnesty contributed to the growth as well, delivering \$36 million in individual income tax receipts and \$215 million in corporate income tax revenues.

Additionally, the decision to decrease the percent allocated to the Income Tax Refund Fund for fiscal year 2011 allowed for more income tax receipts to go directly into the General Funds.

It is important to note, though, that tobacco bond proceeds and the tax amnesty program were one-time revenue sources – and not available to the state moving forward. Other factors impacting the state's base revenues this year include:

- **SALES TAX:** An improving economy increased sales tax revenues by \$525 million, or 8.3 percent, though \$164 million of that total was due to tax amnesty.
- **TRANSFERS:** Transfers in have grown by \$481 million so far this year, aided greatly by the transfer of \$1.25 billion of proceeds from the Tobacco Settlement Recovery Fund in December 2010. Although the state issued pension bonds for fiscal years 2010 and 2011, transfers from the Pension Contribution Fund (to repay General Funds for retirement payments earlier in the year) are down \$619 million in fiscal year 2011. Also, there were \$283 million in legislated fund transfers in fiscal year 2010 which did not occur this year. Transfers from the Capital Projects Fund are up year-to-date as those transfers did not begin until December last fiscal year. And while Lottery Fund transfers increased slightly, riverboat gambling transfers decreased \$59 million, or 15.4 percent. It is also important to note that those totals do not include transfers from the Budget Stabilization Fund or interfund borrowing of \$496 million.
- **FEDERAL REVENUE:** Given a \$1.014 billion decline in GRF stimulus funding for education, federal revenues declined \$534 million, or 9.0 percent, for fiscal year 2011. The decline would have been more substantial if not for an increase in the federal reimbursement of Medicaid payments (up \$395 million in June) as the state focused on Medicaid spending prior to the June 30, 2011 deadline.
- **OTHER RECEIPTS:** All other state receipts are down \$144 million, or 4.6 percent from the previous fiscal year. Specifically, public utility tax receipts increased \$58 million (with \$18 million from the tax amnesty), while inheritance tax receipts dropped by \$121 million.

BASE EXPENDITURES

General Funds base spending increased by

\$4.258 billion, or 15.6 percent, in fiscal year 2011. Spending increased \$452 million and \$673 million in May and June respectively, and was up \$691 million in April. Through twelve months of fiscal year 2011, warrants issued increased by \$1.959 billion and transfers out by \$2.299 billion.

- **SOCIAL SERVICES:** The Department of Healthcare and Family Services had the largest increase in vouchers presented for payment (\$963 million, or 14.3 percent) among the major agencies. The Department of Human Services was down \$86 million, or 2.2 percent for the year.
- **EDUCATION:** Vouchers presented by the State Board of Education were down \$325 million, or 4.5 percent, in fiscal year 2011. Teachers Retirement System and Higher Education vouchers were down \$656 million and \$56 million, respectively, as a larger share of this year's pension payments were funded directly by bond proceeds.
- **TRANSFERS OUT:** Transfers out for fiscal year 2011 increased by \$2.299 billion, or 90.2 percent, compared to last year. While fiscal year 2010 transfers were artificially low, a large portion of the 2011 increase can be attributed to the first year of repayment of the 2010 pension bonds. Other factors include increases in debt service payments and the transfer to the Healthcare Provider Relief Fund to address additional Medicaid bills.

WHAT LIES AHEAD

Although the backlog of GRF bills at the end of the fiscal year was lower than at the end of fiscal year 2010, daunting challenges remain.

On June 30th, Illinois had roughly \$7.4 billion in unaddressed obligations – even after receiving enhanced tax revenues from the recent rate increase. In addition to the nearly \$3.8 billion in unpaid bills at the IOC, there may be as much as \$1.3 billion in additional fiscal year 2011 vouchers arriving in the lapse period, along with \$1.2 billion in unpaid state employee health insurance bills and \$650 million in unpaid corporate income tax refunds. GRF also owes nearly \$490 million to other state funds to pay back fiscal year 2011 interfund borrowing, of which approximately \$350 million is due to be repaid in fiscal year 2012.

The focus this fall will be on the payment of remaining fiscal year 2011 obligations, which may ultimately include more than \$5 billion in bills as final vouchers are forwarded to IOC. Similar to last year, legislative action extended the state's lapse period from the traditional August 31st deadline to the end of December. All vouchers must be filed with IOC by the end of August, but the state will have until the end of December 2011 to pay them.

After Illinois pays those obligations, the outlook for the remainder of fiscal year 2012 is unclear. While state coffers will benefit from the additional revenues generated by the January income tax increase, it will be offset by the state resuming its pension payments from current revenues and the loss of the federal enhanced Medicaid match. Additionally, Illinois' General Funds in fiscal year 2011 benefited from the sale of tobacco bonds, interfund borrowing, and a tax amnesty program, one-time revenue sources that will not be repeated.

The office's ability to pay down the backlog further in 2012 will be contingent on the spending decisions made by the Governor and General Assembly, and the performance of state revenues. The General Funds fiscal year 2012 spending plan appears to be below the likely fiscal year 2012 revenue collections, which would enable the IOC to pay down a portion of the backlog and lessen payment delays. However, it appears there will be pressures to increase spending in certain areas during the course of the year. Furthermore, while the economy-driven revenues appear to be performing well, the risk of economic slowdown remains.

While Illinois appears to be improving its overall financial condition, it will take time to regain its fiscal footing. The backlog of bills at the Comptroller's office is unlikely to fall dramatically over the next 12 months and most vendors will continue to face significant payment delays. In particular, Medicaid service providers - which have benefitted from minimal delays as required by the federal stimulus legislation granting enhanced Medicaid match since 2009 – will face longer delays. Additionally, educational spending supported from the Education Assistance Fund may be delayed as appropriations from the fund exceed expected revenues into the fund. ■

GENERAL FUNDS TRANSACTIONS
(Dollars in Millions)

	June		Change	Twelve Months		Change	
	2010	2011		FY 2010	FY 2011	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 153	\$ 372	\$ 219	\$ 280	\$ 130	\$ (150)	(53.6) %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 751	\$ 1,273	\$ 522	\$ 8,511	\$ 11,225	\$ 2,714	31.9 %
Corporate	211	333	122	1,360	1,851	491	36.1
Total, Income Taxes	962	1,606	644	9,871	13,076	3,205	32.5
Sales Taxes	562	608	46	6,308	6,833	525	8.3
Other Sources:							
Public Utility Taxes	95	101	6	1,089	1,147	58	5.3
Cigarette Taxes	29	30	1	355	355	0	0.0
Inheritance Tax (gross)	35	1	(34)	243	122	(121)	(49.8)
Liquor Gallonage Taxes	14	14	0	159	157	(2)	(1.3)
Insurance Tax and Fees	64	62	(2)	322	317	(5)	(1.6)
Corporation Franchise Tax and Fees	18	16	(2)	208	207	(1)	(0.5)
Investment Income	2	0	(2)	26	28	2	7.7
Cook County IGT	0	0	0	244	244	0	0.0
Other	77	47	(30)	509	434	(75)	(14.7)
Total, Other Sources	334	271	(63)	3,155	3,011	(144)	(4.6)
Total, Cash Receipts	\$ 1,858	\$ 2,485	\$ 627	\$ 19,334	\$ 22,920	\$ 3,586	18.5 %
Transfers In:							
Lottery Fund	\$ 66	\$ 67	\$ 1	\$ 625	\$ 632	\$ 7	1.1 %
State Gaming Fund	35	26	(9)	383	324	(59)	(15.4)
Other Funds	103	101	(2)	1,671	2,204	533	31.9
Total, Transfers In	\$ 204	\$ 194	\$ (10)	\$ 2,679	\$ 3,160	\$ 481	18.0 %
Total, State Sources	\$ 2,062	\$ 2,679	\$ 617	\$ 22,013	\$ 26,080	\$ 4,067	18.5 %
Federal Sources	\$ 262	\$ 550	\$ 288	\$ 5,920	\$ 5,386	\$ (534)	(9.0) %
Total, Base Revenues	\$ 2,324	\$ 3,229	\$ 905	\$ 27,933	\$ 31,466	\$ 3,533	12.6 %
Short Term Borrowing	0	0	0	1,250	1,300	50	4.0
Interfund Borrowing	0	0	0	0	496	496	N/A
Cash Flow Transfer	275	200	(75)	870	259	(611)	(70.2)
Transfer from Budget Stabilization Fund	0	0	0	276	276	0	0.0
Total, Revenues	\$ 2,599	\$ 3,429	\$ 830	\$ 30,329	\$ 33,797	\$ 3,468	11.4 %
Expenditures:							
By Agency:							
Healthcare and Family Services	\$ 70	\$ 465	\$ 395	\$ 6,757	\$ 7,720	\$ 963	14.3 %
State Board of Education	511	796	285	7,266	6,941	(325)	(4.5)
Human Services	258	202	(56)	3,991	3,905	(86)	(2.2)
Teachers Retirement	10	11	1	954	298	(656)	(68.8)
Higher Education	14	37	23	2,217	2,161	(56)	(2.5)
Corrections	86	98	12	1,162	1,190	28	2.4
Children and Family Services	47	33	(14)	845	847	2	0.2
Aging	64	10	(54)	630	644	14	2.2
State Police	20	28	8	269	267	(2)	(0.7)
All Other	168	199	31	1,662	1,875	213	12.8
Total	\$ 1,248	\$ 1,879	\$ 631	\$ 25,753	\$ 25,848	\$ 95	0.4 %
Regular Transfers Out	412	667	255	2,548	4,847	2,299	90.2
Prior Year Adjustments	0	(4)	(4)	(16)	(22)	(6)	37.5
Vouchers Payable Adjustment	737	528	(209)	(952)	918	1,870	N/A
Total, Base Expenditures	\$ 2,397	\$ 3,070	\$ 673	\$ 27,333	\$ 31,591	\$ 4,258	15.6 %
Cash Flow Transfer	0	200	200	870	260	(610)	(70.1)
Transfers to Budget Stabilization Fund	0	0	0	0	276	276	0.0
Transfers to Repay Short-Term Borrowing	225	61	(164)	2,276	1,322	(954)	(41.9)
Transfers to Repay Interfund Borrowing	0	1	1	0	9	9	0.0
Total, Expenditures	2,622	3,332	710	30,479	33,458	2,979	9.8
AVAILABLE CASH BALANCE, ENDING	\$ 130	\$ 469	\$ 339	\$ 130	\$ 469	\$ 339	260.8 %

GENERAL REVENUE FUND TRANSACTIONS
(Dollars in Millions)

	June		Change	Twelve Months		Change	
	2010	2011		FY 2010	FY 2011	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 3	\$ 42	\$ 39	\$ 4	\$ 20	\$ 16	400.0 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 695	\$ 1,180	\$ 485	\$ 7,889	\$ 10,388	\$ 2,499	31.7 %
Corporate	196	309	113	1,261	1,617	356	28.2
Total, Income Taxes	891	1,489	598	9,150	12,005	2,855	31.2
Sales Taxes	422	457	35	4,720	5,064	344	7.3
Other Sources:							
Public Utility Taxes	86	85	(1)	984	1,028	44	4.5
Cigarette Taxes	20	21	1	237	238	1	0.4
Inheritance Tax (gross)	35	1	(34)	243	122	(121)	(49.8)
Liquor Gallonage Taxes	14	14	0	159	157	(2)	(1.3)
Insurance Tax and Fees	64	62	(2)	322	317	(5)	(1.6)
Corporation Franchise							
Tax and Fees	18	16	(2)	208	207	(1)	(0.5)
Investment Income	2	0	(2)	26	28	2	7.7
Cook County IGT	0	0	0	244	244	0	0.0
Other	77	47	(30)	505	430	(75)	(14.9)
Total, Other Sources	316	246	(70)	2,928	2,771	(157)	(5.4)
Total, Cash Receipts	\$ 1,629	\$ 2,192	\$ 563	\$ 16,798	\$ 19,840	\$ 3,042	18.1 %
Transfers In	103	101	(2)	835	2,032	1,197	143.4
Total, State Sources	\$ 1,732	\$ 2,293	\$ 561	\$ 17,633	\$ 21,872	\$ 4,239	24.0 %
Federal Sources	\$ 262	\$ 550	\$ 288	\$ 5,920	\$ 5,386	\$ (534)	(9.0) %
Total, Base Revenues	\$ 1,994	\$ 2,843	\$ 849	\$ 23,553	\$ 27,258	\$ 3,705	15.7 %
Short Term Borrowing	0	0	0	1,250	1,300	50	4.0
Interfund Borrowing	0	0	0	0	496	496	N/A
Cash Flow Transfer	275	200	(75)	870	259	(611)	(70.2)
Transfer from Budget Stabilization Fund	0	0	0	276	276	0	0.0
Total, Revenues	\$ 2,269	\$ 3,043	\$ 774	\$ 25,949	\$ 29,589	\$ 3,640	14.0 %
Expenditures:							
By Agency							
Healthcare and Family Services	\$ 70	\$ 465	395	\$ 6,757	7,720	963	14.3
State Board of Education	111	378	267	3,200	2,331	(869)	(27.2)
Human Services	258	202	(56)	3,991	3,905	(86)	(2.2)
Higher Education	13	20	7	2,021	1,958	(63)	(3.1)
Corrections	86	98	12	1,162	1,190	28	2.4
Children and Family Services	47	33	(14)	845	847	2	0.2
Aging	64	10	(54)	630	644	14	2.2
State Police	20	28	8	269	267	(2)	(0.7)
All Other	169	199	30	1,668	1,886	218	13.1
Total	\$ 838	\$ 1,433	\$ 595	\$ 20,543	\$ 20,748	\$ 205	1.0 %
Regular Transfers Out	629	859	230	3,152	6,152	3,000	95.2
Prior Year Adjustments	(1)	(4)	(3)	(16)	(23)	(7)	43.8
Vouchers Payable Adjustment	561	528	(33)	(892)	858	1,750	N/A
Total, Base Expenditures	\$ 2,027	\$ 2,816	\$ 789	\$ 22,787	\$ 27,735	\$ 4,948	21.7 %
Cash Flow Transfer	0	200	200	870	260	(610)	(70.1)
Transfers to Budget Stabilization Fund	0	0	0	0	276	276	0.0
Transfers to Repay Short-Term Borrowing	225	61	(164)	2,276	1,322	(954)	(41.9)
Transfers to Repay Interfund Borrowing	0	1	1	0	9	9	0.0
Total, Expenditures	2,252	3,078	826	25,933	29,602	3,669	14.1
AVAILABLE CASH BALANCE, ENDING	\$ 20	\$ 7	\$ (13)	\$ 20	\$ 7	\$ (13)	(65.0) %